

# The German model

M2R

Structural reforms and the  
transformation of modern capitalism

# Industry-wide collective bargaining

- Centralisation of collective bargaining: between high and intermediate
  - No intersectoral bargaining at the national level like in Sweden
  - Wages negotiated by industry; regionally rather than nationally
    - Opening clauses or ‘workplace alliances for employment’ (local deviations in the industry-wide agreement)
  - Intersectoral coordination; industry unions follow a pilot agreement (usually IG Metall)
  - Coverage used to be high
    - 72% of employees in 1995; 57% in 2004

- Wage dispersion used to be low
  - Increased inequality at the lower end of the wage distribution
    - No minimum wage

# Intermediary organisations

- Slow decline of organised labour and capital
- Union membership
  - 31% in 1992; 20% in 2003
- Membership density *Gesamtmittel* (metal industry employer association)
  - 74% of employees in 1985; 55% in 2003
- Tensions between large and small firms
  - Large firms feed the strike fund, small firms could not afford it but...
  - Large firms deemed “too accommodating” with unions in order to prevent work stoppages
  - More aggressive outsourcing policies

# Industry associations

- BDI (*Bund der Industrie*): push for radical neo-liberal reforms
- *Initiative Neue Soziale Marktwirtschaft*: neo-liberal program
- 2002: BDI campaign against worker co-determination on the supervisory board of large firms

# Joint decline of unions and employer associations

- Employer association resisted legislation to bolster the works council system, which would have facilitated union membership recruitment
- They weakened both unions and industry-level bargaining by setting up special sections for members wanting to opt out of the centralised industrial relations system

# Weakening of corporatism

- Increase in wage differentials
  - Leads unions to ask for minimum wage legislation; until then considered as a sign of weakness

# Social policy: welfare corporatism

- Germany: Bismarckian welfare state; organised business and unions share the governance of the system
- Use of the welfare system to take surplus labour out of the market: early retirement of workers in declining industries

- 1969: two years of wage moderation after grand coalition – IG Metall decide not to bargain with the government any more
- 1974: Bundesbank rules out sacrificing monetary stability for employment
- 1977 unions withdraw from what was left of tripartite incomes policy
- 1967-1968: only instance of Keynesian reflationary policy
- End of 1970s: combination of hard currency stability policy and high egalitarian wage regime
  - Move to high quality niches: diversified quality production (Streeck)
  - Only part of the labour force can be absorbed by this model; labour surplus must be dealt with through social policy (substitute for Keynesian budget policy)

- 1990s: Attempts to bring down social security benefits and contributions; search for a tripartite alliance
- State control over social policy at the expense of unions: from corporatism to pluralist lobbying
- 2003-2004 Hartz reforms: reduction of UB duration, amalgamation of long term unemployment assistance and social assistance
- Rise of government's role and marginalisation of the unions
  - This aggravates the decline in unions' membership
  - Favours the rise of independent interest organisations

- Encompassing intermediary organisation and centralised collective bargaining first supported and then subverted each other
  - Rising social contributions aggravated the rift between large and small firms
- Social policy first sustained and then undermined relations between labour and capital
- Anticorporatist turn cut back self-government by means of para-public organisations, loosened the ties between the state and organised interests and disorganised the social policy field by opening it up for political and economic competition

# privatisations

- Selling off public property
  - Requires an “efficient” capital market
    - Push to financial deregulation
  - Change in employment practices
    - Deunionisation and low wage employment
- contracting out state activities
  - Purchase with private firms often not covered by an industrial agreement
- Inviting in private competition to put existing providers of public services under competitive pressure

# Corporate governance

- Postwar era: large German firms formed a dense network of multiple ties: cross-shareholding and interlocking directorates: Deutschland AG
  - Protection against a variety of political and economic risks
    - Pressure from minority shareholders
    - Takeovers from foreign firms
  - “patient” capital
  - Interlocutor for the German government
    - Some areas of public policy (industrial policy) delegated to private actors (banks)

# complementarities

- Large firms preferred centralised over company-level wage setting
  - More bargaining power over own labour force
  - Easier to build a stable “conflict partnership” with the unions

# disintegration

- Mid-1980s large German banks (Deutsche Bank) abandon their role as provider of cheap credit
  - Higher profitability on financial markets
- Change of strategy for German firms
  - Vulnerable to takeovers because of their undervalued stock...
  - ... Pressure to generate “shareholder value”
  - 2000: abolition of capital gains tax: incentive to get rid of cross-shareholding

# Systemic change

- Collective bargaining and wage setting
  - Gradually increasing fragmentation driven by conflicts and tensions among the system's constituents
- Intermediary organisations
  - Declining numbers and growing divisions
- Social policy
  - Increasing inability to cope with the externalities of the industrial system
- Public finance
  - Increasing resistance to taxation and redistribution
- Corporate governance
  - Disintegration under the impact of growing competitive pressures and opportunities, weakening of national protections